

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of

MASSAC WATER ASSOCIATION, INC. -)	
APPLICATION FOR "PASS-THROUGH")	
RATE INCREASE AND ORDER ALLOWING)	CASE NO. 8181
THE PUBLISHING OF A NEW TARIFF)	
FOR AN INCREASE IN WATER RATES)	

O R D E R

On March 30, 1981, Massac Water Association, Inc., ("Mas-sac") filed its application with this Commission for a "pass-through" rate increase and an order allowing it to increase its water service rates and charges by \$3,891 annually.

The matter was scheduled for hearing at the Commission's offices in Frankfort, Kentucky on June 30, 1981. The Consumer Protection Division of the Attorney General's Office was the only party intervening in the matter.

COMMENTARY

Massac is a non-profit water distribution system organized and existing under the laws of the Commonwealth of Kentucky. Massac presently serves 368 consumers in McCracken and Graves counties, Kentucky.

TEST PERIOD

The 12-month period ending December 31, 1980, has been used as the test year for the purpose of determining the reasonableness

of the rates and charges proposed herein. Pro forma adjustments have been included where found reasonable and proper for rate-making purposes.

REVENUES AND EXPENSES

Massac proposed only one pro forma adjustment of \$3,637 to reflect the increased cost of water from its wholesale water supplier; however, the increased cost was based on the gallons of water sold plus 6 percent for line loss. Although the line loss was 1.4 percent for the test year, the average for the past 3 years has been 6 percent. Based on the gallons of water purchased during the test year at the increased rate, the cost of water purchased would be \$17,318, which results in an increase of \$2,850.

The Commission has increased operating revenue by \$282 to reflect a normalization adjustment for the test period based on the billing analysis.

The Commission has also reduced the test year depreciation expense by \$8,060 to exclude depreciation on contributed property for rate-making purposes. The record herein reflects that contributions in aid of construction from customers, a federal grant, and other contributions amounted to \$376,198 or approximately 43 percent of the total cost of water plant in service. It is the opinion of the Commission that a water utility, through its water rates, will generate revenues sufficient to recover all costs in providing service to its customers. However, Massac

should not charge its customers for costs it has not incurred, as would be the case if it were allowed depreciation on contributed property.

Based on the aforesaid adjustments, Massac's operating statement appears as follows:

	<u>Actual 12-31-80</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted Test Year</u>
Operating Revenues	\$ 82,628	\$ 282	\$ 82,910
Operating Expenses	58,229	(5,210)	53,019
Net Operating Income	<u>24,399</u>	<u>5,492</u>	<u>29,891</u>
Other Income	230		230
Other Deductions	24,083		24,083
Net Income	<u>\$ 546</u>	<u>\$ 5,492</u>	<u>\$ 6,038</u>

The actual net income for the test year was \$546. After taking into consideration the pro forma adjustments, net income would be increased to \$6,038.

The Commission is of the opinion that the proposed rates of Massac will produce total operating revenues of \$86,801, an increase of \$3,891. Based on the proposed rates and other income, the debt service coverage of 1.12, as computed below, will be adequate to allow Massac to pay operating expenses, meet its debt service requirements, and improve its financial position.

Adjusted Operating Revenues	\$ 86,801
Add: Other Income	230
Subtotal	<u>87,031</u>
Less: Adjusted Operating Expenses	53,019
Margin	<u>\$ 34,012</u>

$$\frac{\$34,012 \text{ Margin}}{\$30,288 \text{ Debt Service Cost}} = 1.12 \text{ Debt Service Coverage}$$

PURCHASED WATER ADJUSTMENT CLAUSE

(1) A Purchased Water Adjustment Clause is the fair, just and reasonable method to be used to provide for the adjustment of Massac's rates in McCracken and Graves counties when the whole-sale cost of water is increased or decreased as it will allow Massac to reflect on a timely basis its increased or decreased costs. Further, it is in the best interest of the public as it will help to ensure the financial stability of Massac and therefore its ability to provide safe, reliable water service to the public.

(2) Massac does not have on file with the Commission in its tariff a Purchased Water Adjustment Clause.

(3) For the purpose of the future application of the Purchased Water Adjustment Clause, Massac shall use the base rate for purchased water in Appendix A.

RATE DESIGN

Massac has proposed to change its present rate structures now in effect by consolidating and eliminating certain steps within these structures. Massac has proposed changes for each rate schedule except for the 2-inch meter.

The Commission is of the opinion that the consolidation and the elimination of certain steps in the proposed rate schedules are in the best interest of the public and should be approved.

SUMMARY

The Commission, after consideration of the evidence of record and being fully advised, is of the opinion and finds that the rates proposed by Massac, in Appendix A, attached hereto, are the fair, just and reasonable rates for service rendered by Massac on and after the date of this Order. These rates will produce annual revenues based on test year sales of approximately \$85,657 and after the addition of \$1,144 of other operating revenues, will provide total annual operating revenues of \$86,801.

IT IS THEREFORE ORDERED That the rates in Appendix A, attached hereto, are approved for service rendered by Massac on and after the date of this Order.

IT IS FURTHER ORDERED That Massac shall file with this Commission, within 30 days of the date of this Order, its revised tariff sheets setting forth the rates approved herein.

IT IS FURTHER ORDERED That the purchased water adjustment clause in Appendix A is in the best interest of the public and is hereby approved.

Done at Frankfort, Kentucky, this 29th day of October, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Webb
Chairman

Katherine Randall
Vice Chairman

L. M. Carver
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION OF KENTUCKY IN CASE NO.8181 DATED OCTOBER 29, 1981

The following rates and charges are prescribed for all customers served by Massac Water Association, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect prior to the date of this Order.

Rates

The rates for monthly water service rendered by the Massac Water Association, Inc., to all users in the service area shall be as follows:

5/8" Meter

First	2,000 gallons	\$ 8.50 Minimum
Next	8,000 gallons	3.80 per 1,000 gallons
Next	10,000 gallons	2.00 per 1,000 gallons
Over	20,000 gallons	1.60 per 1,000 gallons

3/4" Meter

First	3,000 gallons	\$ 12.30 Minimum
Next	7,000 gallons	3.80 per 1,000 gallons
Next	10,000 gallons	2.00 per 1,000 gallons
Over	20,000 gallons	1.60 per 1,000 gallons

1" Meter

First	5,000 gallons	\$ 19.90 Minimum
Next	5,000 gallons	3.80 per 1,000 gallons
Next	10,000 gallons	2.00 per 1,000 gallons
Over	20,000 gallons	1.60 per 1,000 gallons

1-1/2" Meter

First	20,000 gallons	\$ 58.90 Minimum
Over	20,000 gallons	1.60 per 1,000 gallons

2" Meter

First	50,000 gallons	\$106.90 Minimum
Over	50,000 gallons	1.60 per 1,000 gallons

Connection Charges

5/8" Meter	\$385.00
3/4" Meter	385.00
1" Meter	500.00

All meters larger than 1" - actual cost of material and installation.

Purchased Water Adjustment Applicable to the
Massac Water Association Rate Schedule

The retail rates now authorized and operable are based upon the wholesale cost of water to Massac pursuant to valid contracts or wholesale tariffs on file with the Commission. For purposes of this purchased water adjustment clause, these wholesale rates shall be considered as the base rate for purchased water.

Application for Change in Base Rate. In the event there is a change in the base rates, Massac shall file with the Commission the following information:

(1) A copy of the wholesale supplier's tariff effecting a change in the base rate and a statement from the wholesale supplier evidencing the effective date of the new rates;

(2) A detailed statement of water purchased under the base rate for previous 12 months showing billing under the base rate and the applicable proposed rate;

(3) A detailed statement of water sold for the same 12-month period;

(4) A balance sheet and statement of operating expenses and revenues corresponding to the same 12-month period, said period ending not more than 90 days prior to the date of this utility's application for an increase in the base rate;

(5) Evidence that Massac has notified its customers of the proposed change, in the event of an increase only;

(6) Revised tariff sheets reflecting the rates Massac proposes to charge; and

(7) Such other information as the Commission may request for a proper determination of the purchased water adjustment.

Upon receipt of all the necessary information, the Commission will review the effect of the changed rate upon Massac's operations and if an increase is proposed, determine whether all or a part of the increase can be absorbed by Massac. Massac shall not implement its proposed revised rates until the Commission issues an Order authorizing Massac to adjust its rates. If an adjustment is authorized, the supplier's changed rate shall become the supplier's base rate for use in future applications.

The maximum amount of the adjustment so ordered shall not produce revenue adjustments greater than the difference between the purchased water billed at the base rate and the purchased water billed at the authorized revised rate.

The notice required by (5) may be accomplished by a bill insert.

Calculation of the Purchased Water Adjustment. If a change is made in a base rate charged to Massac by its supplier(s), the unit charges of the wholesale tariff shall be increased or decreased by a purchased water adjustment calculated as follows:

(1) Water purchases shall be computed at the supplier's base rate and the supplier's new rate using a period of 12 cal-

endar months ending within 3 months preceding the month of the effective date of the supplier's rate change. The difference between these amounts shows the total change in Massac's purchased water costs.

(2) The total change in purchased water costs shall be divided by the actual number of cubic feet or gallons sold, yielding the purchased water adjustment expressed in cents per cubic feet or gallons, unless Massac's water purchases exceed 115 percent of water sales during the 12-month period.

(3) In instances where water purchases exceed 115 percent of water sales, the actual water sales shall be divided by 85 percent, yielding the maximum allowable water purchases. The maximum allowable water purchases shall then be multiplied by the change in cost per cubic foot or gallon, yielding the total allowable change. The total allowable change shall then be divided by the actual number of cubic feet or gallons sold, yielding the purchased water adjustment expressed in cents per cubic feet or gallons.

Procedure for Distribution of Refunds from Suppliers. In the event Massac receives a refund from its supplier for amounts previously paid, Massac shall immediately apply to the Commission for authority to make adjustments on the amounts charged customers' bills under this regulation as follows:

(1) The total refund received by Massac shall be divided by the number of cubic feet or gallons of water the water utility estimates it will sell to its customers during the 4-month period

beginning with the first day of the month following receipt of the refund, yielding a refund factor.

(2) Effective with meter readings taken on and after the first day of the second month following receipt of the refund, Massac will reduce by the refund factor any purchased water adjustment that would otherwise be applicable during the period. The period of reduced purchased water adjustment shall be adjusted, if necessary, in order to most nearly approximate the total amount to be refunded.

(3) In the event Massac receives a large or unusual refund, Massac may apply to the Commission for a deviation from the procedure for distribution of refunds specified herein.

The base rate for purchased water for the future application of its purchased water adjustment clause is:

<u>Supplier</u>	<u>Rate</u>
Paducah Water Works	\$0.79 per 1,000 gallons